

1. In a two-nation model, the equilibrium world price will occur where:
☒ A) one nation's export supply curve intersects the other nation's import demand curve.
B) both nations' exports are exactly twice the level of imports.
C) both nations' export supply curves are horizontal.
D) both nations' import demand curves are vertical.

2. Which of the following will generate a demand for country X's currency in the foreign exchange market?
A) travel by foreigners in country X
B) the desire of foreigners to buy stocks and bonds of firms in country X
C) the exports of country X
☒ D) all of the above

3. Canadian export transactions create:
A) a Canadian demand for foreign monies and the satisfaction of this demand decreases the supplies of dollars held by foreign banks.
B) a Canadian demand for foreign monies and the satisfaction of this demand increases the supplies of dollars held by foreign banks.
C) a foreign demand for dollars and the satisfaction of this demand decreases the supplies of foreign monies held by Canadian banks.
☒ D) a foreign demand for dollars and the satisfaction of this demand increases the supplies of foreign monies held by Canadian banks.

4. Under the gold standard:
A) nations can protect their domestic price and employment levels from changes in the volume and direction of world trade.
☒ B) exchange rates are virtually fixed.
C) differences in exports and imports will be precisely balanced by long-term capital flows.
D) exchange rates fluctuate freely in response to changes in the supply of, and demand for, foreign monies.

5. Firms engaged in international trade can reduce exchange risk by:
A) paying for foreign goods only when they are delivered.
B) buying on credit.
☒ C) hedging in the futures market.
D) dealing only with highly reputable firms.

6. Which combination of policies would entail the greatest stimulus to domestic employment and output in the short run?
- A) raising trade barriers on imports and subsidizing exports
 - B) raising trade barriers on imports and imposing special taxes on exports
 - C) lowering trade barriers on imports and imposing special taxes on exports
 - ☒ D) lowering trade barriers on imports and subsidizing exports
7. The central reserve currency for international trade under the Bretton Woods system was the:
- ☒ A) U.S. dollar.
 - B) Swiss franc.
 - C) Japanese yen.
 - D) British pound sterling.
8. Under the international gold standard:
- A) a nation sacrifices an independent monetary policy.
 - ☒ B) gold flows between nations would always promote macroeconomic stability.
 - C) exchange rates would fluctuate with changes in demand and supply.
 - D) balance of payments imbalances would be magnified.
9. In the real world, specialization is rarely complete because:
- ☒ A) nations normally experience increasing opportunity costs in producing more of the product in which they are specializing.
 - B) production possibilities curves are straight lines rather than curves bowed outward as viewed from the origin.
 - C) one nation's imports are necessarily another nation's exports.
 - D) international law prohibits monopolies.
10. In a two-nation world, comparative advantage means that one nation can produce:
- A) a product with fewer inputs than the other nation.
 - B) a product at lower average cost than the other nation.
 - ☒ C) a product at a lower domestic opportunity cost than the other nation.
 - D) more of a product than the other nation.
11. As it relates to international trade, "dumping":
- A) is a form of price discrimination illegal under Canadian anti-combines laws.
 - ☒ B) is the practice of selling goods in a foreign market at less than cost.
 - C) constitutes a general case for permanent tariffs.
 - D) is defined as selling more goods than allowed by an import quota.

12. Currency speculators aid international trade by:
- ☒ A) absorbing exchange rate risk which others do not want to bear.
 - B) increasing the volatility of exchange rates.
 - C) making the demand for imports less elastic.
 - D) promoting barter.
13. The Bretton Woods system of exchange rates relied on:
- A) flexible exchange rates.
 - B) fixed exchange rates with no mechanism for changing them.
 - ☒ C) fixed or "pegged" exchange rates, with occasional orderly adjustments to the rates.
 - D) Canada to set and periodically review worldwide exchange rates.
14. Which is not a commonly heard argument for protectionism?
- A) A strong national defense requires that some military products be produced domestically.
 - B) Infant industries need short-run, but not long-run, protection from foreign competition.
 - ☒ C) Specialization along the lines of comparative advantage can lead to greater economic instability for a nation.
 - D) When other nations' economies grow they typically import fewer goods and services.
15. Trade Bloc refers to a:
- A) group of industries that have common commodity and trade rules.
 - B) group of countries which have liberalized the movement of labour and not capital.
 - C) group of countries who impose trade restrictions against each other.
 - ☒ D) group of countries having common identity, economic interests, and trade rules.
16. A protective tariff will:
- ☒ A) increase the price and sales of domestic producers.
 - B) reduce the welfare of domestic consumers.
 - C) result in a transfer of income from domestic consumers to government.
 - D) do all of the above.
17. The best example of a land-intensive commodity is:
- A) cameras.
 - B) radios.
 - ☒ C) meat.
 - D) chemicals.

18. If a nation has a comparative advantage in the production of X, this means the nation:
- ☐ A) cannot benefit by producing and trading this product.
 - ☒ B) must give up less of other goods than other nations in producing a unit of X.
 - ☐ C) has a production possibilities curve identical to those of other nations.
 - ☐ D) is not subject to increasing opportunity costs.
19. The current system of exchange rates can best be described as:
- ☐ A) freely fluctuating exchange rates.
 - ☒ B) managed flexible exchange rates.
 - ☐ C) rigidly fixed exchange rates.
 - ☐ D) a crawling peg system.
20. Free trade based on comparative advantage is economically beneficial because:
- ☐ A) it promotes an efficient allocation of world resources.
 - ☐ B) it increases competition.
 - ☐ C) it provides consumers with a wider range of products.
 - ☒ D) of all of the above reasons.
21. If the dollar price of yen rises, then:
- ☐ A) the yen price of dollars also rises.
 - ☒ B) the dollar depreciates relative to the yen.
 - ☐ C) the yen depreciates relative to the dollar.
 - ☐ D) all of the above will occur.
22. Which of the following would contribute to a Canadian balance of payments surplus?
- ☒ A) Canada makes a unilateral tariff reduction on imported goods
 - ☐ B) Canadian Pacific pays a dividend to a Swiss stockholder
 - ☐ C) Canada cuts back on Canadian military personnel stationed in Germany
 - ☐ D) Russian vodka becomes increasingly popular in Canada
23. A licensing requirement, or unreasonable standard pertaining to the product quality and safety for a product that is imported into a country, is an example of:
- ☐ A) protective tariffs.
 - ☒ B) nontariff barriers.
 - ☐ C) voluntary export restrictions.
 - ☐ D) quotas on imported products.

24. If country A can produce both goods X and Y more efficiently, that is, with smaller absolute amounts of resources, than can country B:
- ☒ A) mutually advantageous specialization and trade between A and B may still be possible.
 - B) we can conclude that A is an "advanced" economy and B is "less developed."
 - C) it will necessarily be advantageous for B to import both X and Y from A.
 - D) then there is no possible basis for mutually advantageous specialization and trade between A and B.
25. The fact that international specialization and trade based on comparative advantage can increase world output is reflected in the fact that:
- A) the production possibilities curve of any two nations are identical.
 - B) a nation's production possibilities and trading possibilities lines coincide.
 - ☒ C) a nation's trading possibilities line lies to the right of its production possibilities line.
 - D) a nation's production possibilities line lies to the right of its trading possibilities line.
26. In the balance of payments of Canada, Canadian merchandise imports are recorded as a:
- A) positive entry.
 - ☒ B) capital account entry.
 - C) current account entry.
 - D) official reserves entry.
27. The terms of trade reflect the:
- A) rate at which gold exchanges internationally for any domestic currency.
 - ☒ B) ratio at which nations will exchange two goods.
 - C) fact that the gains from trade will be equally divided.
 - D) cost conditions embodied in a single country's production possibilities curve.
28. It may be misleading to label a trade deficit as "unfavourable" or "adverse" because:
- ☒ A) the multiplier does not apply to a trade deficit.
 - B) it increases our aggregate output and employment.
 - C) Canadian consumers benefit from a trade deficit during the period it occurs.
 - D) all of the above reasons.
29. Suppose Canada eliminates tariffs on German bicycles. As a result, we would expect:
- A) the price of German bicycles to decline in Canada.
 - B) employment would increase in the German bicycle industry.
 - C) employment would decrease in the Canadian bicycle industry.
 - ☒ D) all of the above to occur.

30. A tariff can best be described as:

- ☒ A) an excise tax on an imported good.
- ☐ B) a government payment to domestic producers to enable them to sell competitively in world markets.
- ☐ C) an excise tax on an exported good.
- ☐ D) a law which sets a limit on the amount of a good which can be imported.